M00I
Chronic Disease Services
Department of Health and Mental Hygiene

Operating Budget Data

($ in Thousands)

	FY 12 Actual	FY 13 Working	FY 14 Allowance	FY 13-14 Change	% Change Prior Year
General Fund	$40,747	$41,587	$43,046	$1,459	3.5%
Contingent & Back of Bill Reductions	0	0	-62	-62	
Adjusted General Fund	**$40,747**	**$41,587**	**$42,983**	**$1,396**	**3.4%**
Special Fund	4,217	4,302	4,425	123	2.9%
Contingent & Back of Bill Reductions	0	0	-3	-3	
Adjusted Special Fund	**$4,217**	**$4,302**	**$4,422**	**$120**	**2.8%**
Reimbursable Fund	697	667	799	132	19.9%
Adjusted Reimbursable Fund	**$697**	**$667**	**$799**	**$132**	**19.9%**
Adjusted Grand Total	**$45,661**	**$46,555**	**$48,204**	**$1,649**	**3.5%**

- The allowance grows $1.6 million, driven by a $1.4 million increase in general funds. However, general fund growth is overstated somewhat due to the presence of Budget Restoration Funds in fiscal 2013, a State special fund created in Chapter 1 of the First Special Session of 2012.

- Special funds grow $280,835, or 6.5%, after accounting for the Budget Restoration Fund.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	FY 12 Actual	FY 13 Working	FY 14 Allowance	FY 13-14 Change
Regular Positions	528.05	522.05	522.05	0.00
Contractual FTEs	27.25	15.88	15.99	0.11
Total Personnel	**555.30**	**537.93**	**538.04**	**0.11**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	32.73	6.27%
Positions and Percentage Vacant as of 12/31/12	57.25	10.97%

- The two hospitals have a current vacancy rate of 11.0%, or 57.3 positions, though they are budgeted with a turnover rate assuming 32.7 positions are vacant throughout fiscal 2014.

- Contractual full-time equivalent (FTE) positions increase 0.11, as 0.35 FTE is added at Deer's Head Center (DHC) and 0.24 FTE is deleted at Western Maryland Hospital Center (WMHC).

Analysis in Brief

Major Trends

Culture of Safety: The first goal of both hospitals is to operate with a culture of safety for patients, residents, and staff by reducing the annual number of accidents, injuries, and errors. Medication errors at WMHC have increased over prior years, though the hospital believes it is likely due to more consistent reporting of actual errors after the introduction of electronic medical records. The error rate at DHC is higher than that at WMHC, though it is difficult to compare hospitals with different services and patient makeup. **The hospitals should comment on reducing medication error rates.**

Average Length of Stay: Due to changes in federal reimbursement rates for patient days, the hospitals are working to efficiently treat patients so that they can move to a setting that requires a lower level of care. At WMHC, the average number of daily patients declined despite an increase in admissions, showing that it was able to successfully treat patients in less time. DHC's average daily patients declined, as did its admissions.

Issues

Rural Recruiting: Maryland's rural hospitals often have difficulty recruiting for open physician positions. For example, WMHC had to contract with a temporary medical services provider after failing to find suitable candidates after 10 months. Lower pay and a unique staffing model make it especially hard for recruiting, but the hospital believes it will have the vacant position filled by the time the contract expires in October 2013. It may be difficult for hospitals like WMHC and DHC to meet an increase in demand expected from the recent federal health care reform. **The hospitals should comment on preparing for the increase in demand resulting from the Patient Protection and Affordable Care Act.**

Recommended Actions

1. Concur with Governor's allowance.

M00I
Chronic Disease Services
Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

The State's two chronic disease hospital centers, Western Maryland Hospital Center (WMHC) and Deer's Head Center (DHC), provide specialized services for those in need of complex medical management, comprehensive rehabilitation, long-term care, or dialysis. Specifically, both centers provide:

- chronic care and treatment to patients requiring acute rehabilitation, at a level greater than that available at a nursing home, for management of complex medical issues such as respiratory, coma, traumatic brain injury, spinal cord injury, wound management, dementia, cancer care, and quarantined tuberculosis;

- long-term nursing care for patients no longer in need of hospital-level care but unable to function in traditional nursing homes; and

- inpatient and outpatient renal dialysis services.

Performance Analysis: Managing for Results

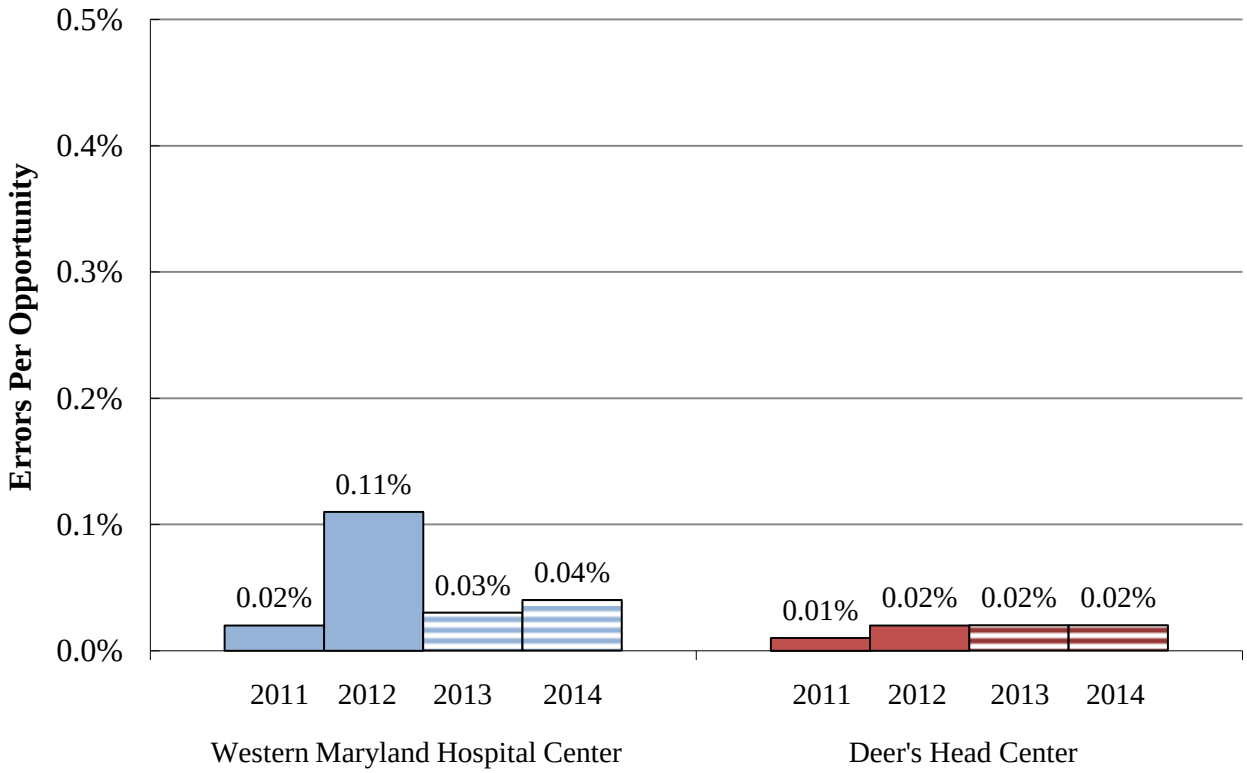
1. Culture of Safety

The first goal for both hospitals is to operate with a culture of safety for patients, residents, and staff by reducing the annual number of accidents, injuries, and errors. All of the performance measures reported for WMHC and DHC are aimed at minimizing errors and improving the experience of patients.

One of the major goals toward preventing harm to patients is preventing medication errors. A medication error is defined by the National Coordinating Council for Medication Error Reporting and Prevention as any preventable event that may cause or lead to inappropriate medication use or patient harm while the medication is in the control of the health care professional, patient, or customer. The agency points out that most errors occur and are caught before the patient ever receives the medication. There are no commonly accepted industry benchmarks for medication errors due to the different patient mixes and services offered at different hospitals.

Exhibit 1 shows the number of medication errors compared to the opportunities for error. It should be noted that one cannot compare directly between the two hospitals shown in the exhibit due

Exhibit 1
Medication Error Rate
Fiscal 2011-2014

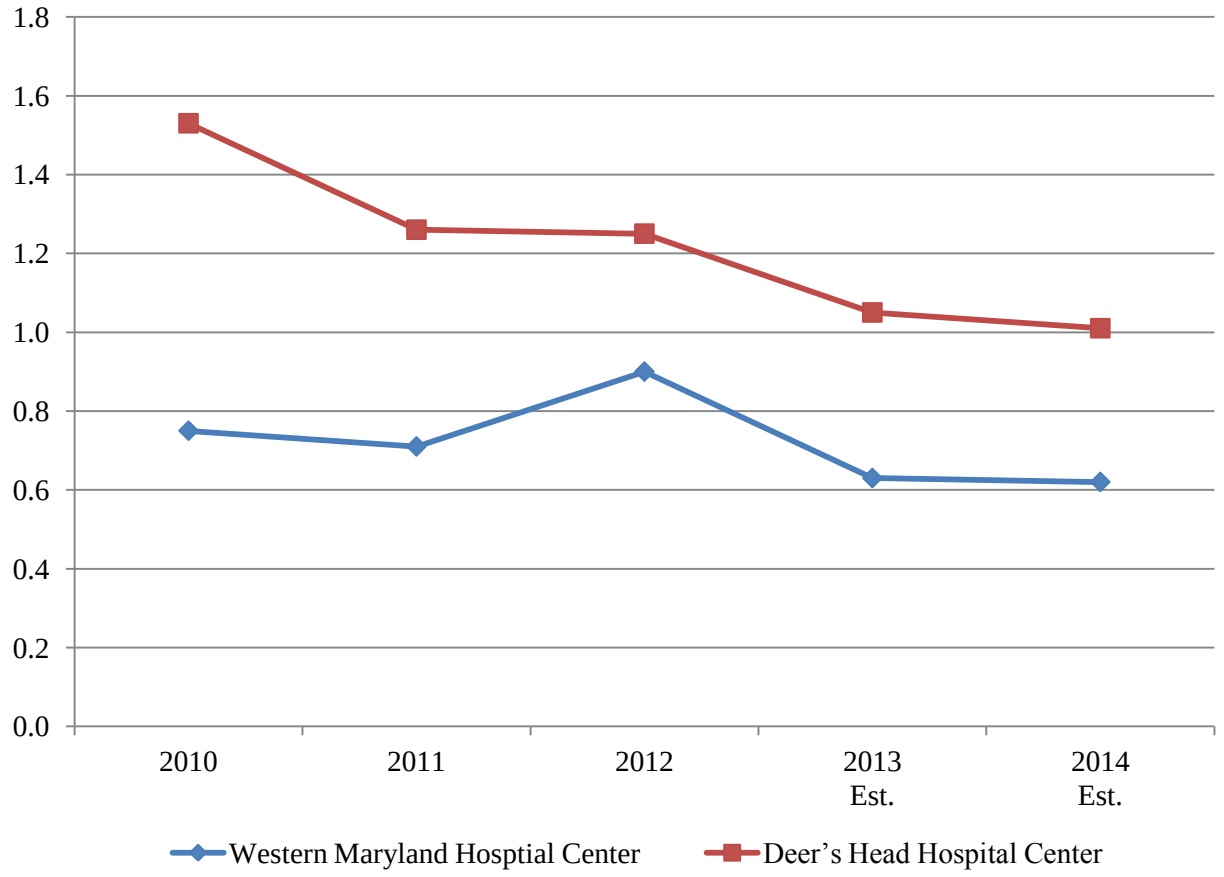


Source: Governor's Budget Books, Fiscal 2013-2014

to the differences in the number and type of patients served, different reporting procedures, and other factors. WMHC's error rate jumped in fiscal 2012, believed not to be an increase in actual errors but instead a more accurate reading of errors that are occurring due to more consistent reporting with the introduction of a new electronic reporting system for medication errors. The hospital's projections have the rate returning to fiscal 2011 levels, though it may turn out to be closer to the fiscal 2012 actual for the next few years. **The hospitals should comment on reducing medication error rates.**

Exhibit 2 shows the number of pressure ulcers patients experienced per 1,000 patient care days. Both hospitals have plans in place to assess risk of injury and reassess the risk at regular intervals. The exhibit shows that DHC has gradually decreased the percentage of pressure ulcers per 1000 patient care days since fiscal 2010 while WMHC's percent grew from 0.7 to 0.9 in fiscal 2012. WMHC is working to reverse the trend and reports that it has noticed an increase in pressure ulcers among residents who use external devices like urinary catheters and braces.

Exhibit 2
Pressure Ulcers Per 1,000 Patient Care Days
Fiscal 2010-2014

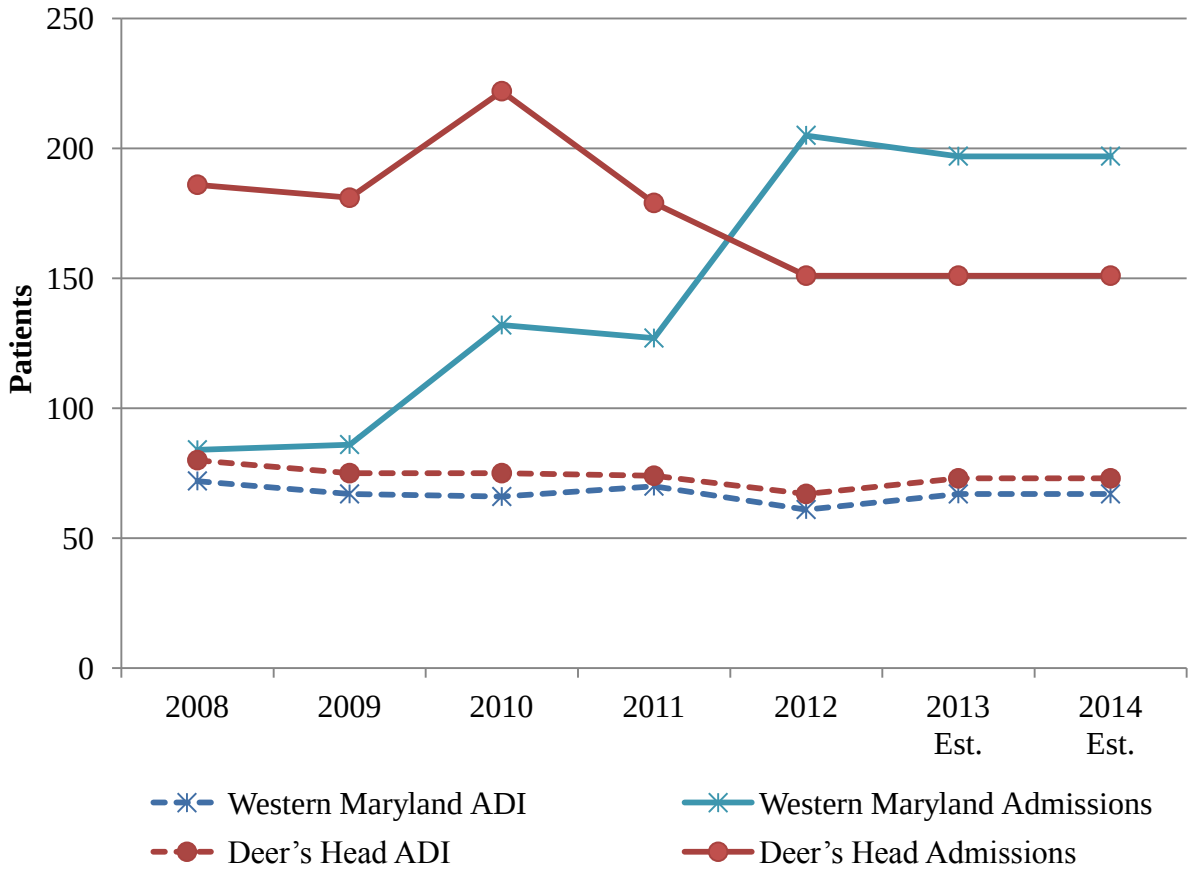


Source: Governor's Budget Books, Fiscal 2013-2014

2. Average Length of Stay

Due to changes in reimbursements for patient days, the hospitals are working to efficiently treat patients and allow them to move on to a lower level of care as soon as is medically possible. **Exhibit 3** shows that while admissions have fluctuated year to year at both hospitals, the average daily number of patients has declined steadily since fiscal 2008. WMHC in particular was able to successfully treat patients in less time, even as admissions grew by over 60%.

Exhibit 3
Average Daily Inpatients and Admissions
Fiscal 2008-2014



ADI: average daily inpatients

Source: Governor's Budget Books, Fiscal 2011-2014

Proposed Budget

Exhibit 4 shows that the allowance for WMHC and DHC grows $1.6 million after accounting for a $0.1 million across-the-board reduction to health insurance costs to recognize favorable cost trends in the health insurance market. The change is driven by an increase in general funds of $1.4 million, though this amount is overstated by $0.2 million in Budget Restoration Funds, a fiscal 2013 State special fund created by Chapter 1 of the First Special Session of 2012.

Exhibit 4
Proposed Budget
DHMH – Chronic Disease Services
($ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2013 Working Appropriation	$41,587	$4,302	$667	$46,555
2014 Allowance	43,046	4,425	799	48,270
Amount Change	$1,459	$123	$132	$1,714
Percent Change	3.5%	2.9%	19.9%	3.7%
Contingent Reductions	-$62	-$3	$0	-$66
Adjusted Change	$1,396	$120	$132	$1,649
Adjusted Percent Change	3.4%	2.8%	19.9%	3.5%

Where It Goes:

Personnel Expenses	
Employee retirement	$645
Health insurance	450
Retiree health insurance	309
Annualization of fiscal 2013 employee cost-of-living adjustment	262
Other fringe benefit adjustments	11
Regular earnings	-24
Workers' compensation	-32
Turnover	-164
Western Maryland Hospital Center	
Nursing home provider fees	73
Property insurance	44
Outpatient care services	22
Patient medical services	21
Paper products for dietary and other uses	20
Anticipated use of funds donated in fiscal 2012	20
Equipment repairs and maintenance	19
Utility expenses	-38

Where It Goes:	
Patient medicine and drugs	-95
Medical supplies costs to align with fiscal 2012 per-capita spending	-221
Deer's Head Hospital Center	
Medical supplies costs to align with fiscal 2012 per-capita spending	161
Nursing home provider fees	138
New patient transportation van	40
Supplies for on-site medical testing laboratory	34
Food	30
Equipment repairs and maintenance	29
Laundry costs	22
Increase on off-site inpatient care for patients	11
Patient medicine and drugs	-30
Rentals of specialized equipment based on prior year actual	-31
Pharmacy costs	-108
Other	31
Total	**$1,649**

Note: Numbers may not sum to total due to rounding.

Personnel Expenses

Changes in personnel expenses drives the overall change for the two hospitals, as spending on salaries and fringe benefits increase $1.5 million in the allowance. The biggest increase is funding for employee retirement, driven by contribution rates for regular employees. The fiscal 2014 rate increases are attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform.

Employee health insurance costs grow $449,994 after accounting for the $65,620 across-the-board reduction, and retiree health insurance costs increase $308,953. The biggest decrease in the personnel budget is $163,573, as the number of positions assumed to be vacant in fiscal 2014 is higher than assumed in fiscal 2013.

Programmatic Changes

Exhibit 4 also shows the other changes at the two hospitals, which together net an increase of $191,940. Apart from personnel costs, the WMHC budget declines $135,503, driven by reduced spending on medical supplies ($220,728) and patient medicine and drugs ($95,298). Both of these figures were calculated based on actual per capita spending in fiscal 2012, and WMHC is budgeting for a lower average per capita need for these in fiscal 2014.

DHC is anticipating a higher per capita in fiscal 2014, and those costs are increasing. Medical supplies are budgeted to increase $160,714, and spending on comprehensive psychiatric care is expected to increase $138,233. These increases are offset somewhat by a $107,573 decline in spending on patient pharmacy costs.

Issues

1. Rural Recruiting

At the December 5, 2012 Board of Public Works (BPW) meeting, WMHC had an item on the agenda: Emergency Procurement for Physician Services. The medical staff at the hospital totals four people – three doctors and one nurse practitioner. For the majority of the time since April 2012, one of the doctor positions has been vacant, and a second doctor was on temporary leave of absence and has required other leave since returning. Though WMHC has engaged the services of a recruiter, neither WMHC nor the recruiter was able to find applicants suitable for the position.

Both nationally and in Maryland, there is a shortage of primary and specialty care doctors. The problem is especially acute in rural areas. According to the federal Department of Health and Human Services, Maryland has 51 medically underserved areas, and although they do not include the areas around WMHC and DHC, the issues that create medically underserved areas affect the two hospitals. WMHC has identified a few issues that create problems when recruiting new doctors.

- The location of WMHC is far away from major population centers, and career opportunities for the doctor's partner are limited.

- The salary WMHC can offer is below what prospective doctors could find elsewhere, including in Washington County.

- As a State hospital, WMHC is not able to create a salary increase structure comparable to competing hospitals, such as pay increases for earning additional certifications.

- WMHC's staffing model is much different than what doctors will see elsewhere.

WMHC has been recruiting to fill the vacant position since February 2012. After nearly a year, the hospital and DHMH decided to contract with a temporary medical employment agency while it continued its search.

In the past, WMHC has used temporary medical contracts to successfully recruit doctors who come to appreciate its unique mission and working environment, but salary remains an issue. The hospital has also had success recruiting using the H-1B Visa program. However, this vacancy was poorly timed for finding a doctor using that route because most candidates begin their search over a year in advance of completing their residency the following summer.

Using the Rural Recruitment Network, a website for placing medical workers in rural areas, WMHC has started receiving inquiries from potential candidates. Since BPW approved WMHC's item, the hospital is no longer as short staffed as it was throughout much of 2012. The contract lasts through October 22, 2013, and by that time, WMHC expects to have identified and hired a replacement.

Impact of Health Care Reform

As the country moves forward in implementing the federal Patient Protection and Affordable Care Act (ACA), the legislation is expected to increase the demand for medical service providers, as many more people will have health insurance. The increase in demand may be especially difficult to handle for hospitals like WMHC and DHC and others located in rural areas. **The hospitals should comment on preparing for the increase in demand resulting from the ACA.**

Recommended Actions

1. Concur with Governor's allowance.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Chronic Disease Services
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2012					
Legislative Appropriation	$40,366	$5,131	$0	$653	$46,149
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	381	3	0	54	439
Reversions and Cancellations	0	-916	0	-10	-926
Actual Expenditures	**$40,747**	**$4,217**	**$0**	**$697**	**$45,661**
Fiscal 2013					
Legislative Appropriation	$41,587	$4,144	$0	$667	$46,398
Budget Amendments	0	157	0	0	157
Working Appropriation	**$41,587**	**$4,302**	**$0**	**$667**	**$46,555**

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

The legislative appropriation was increased by $387,816 in general funds and $2,825 in special funds for a one-time $750 State employee bonus. Several other budget amendments affected general funds, however:

- $409,568 to DHC as part of a Department of Health and Mental Hygiene (DHMH)-wide realignment of expenditures to meet expected spending.

- $154,810 to cover increased hospital assessment costs at DHC and WMHC.

- -$450,000 realignment of health insurance costs between executive agencies to meet expected spending.

- -$120,810 for a DHMH specific realignment of health insurance costs.

The chronic disease hospitals also received two reimbursable fund amendments, totaling $54,490. Of this amount, $48,608 came from the Potomac Center to support dietary services provided by WMHC. The balance was for expenses related to Hurricane Irene and Tropical Storm Lee recovery, appropriated from the Maryland Emergency Management Agency.

At the close of the fiscal year, both special and reimbursable funds were cancelled. In terms of special funds, both hospitals had lower than budgeted use of their dialysis centers, and because they only spend up to the amount of revenue generated, $916,249 in special funds was cancelled. The $10,074 reimbursable fund cancellation was due to lower than budgeted expenses at the Potomac Center.

Fiscal 2013

The legislative appropriation increased by $157,351 to account for a 2% employee cost-of-living adjustment (COLA) in fiscal 2013. Although most employees at the Chronic Disease Hospitals are funded with general funds, COLA payments to those employees came from the Budget Restoration Fund, a special fund source.

Appendix 2

Audit Findings

Audit Period for Last Audit:	July 1, 2009 – May 6, 2012
Issue Date:	November 2012
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	

The audit was for WMHC and did not disclose any findings.

Object/Fund Difference Report
DHMH – Chronic Disease Services

Object/Fund	FY 12 Actual	FY 13 Working Appropriation	FY 14 Allowance	FY 13 - FY 14 Amount Change	Percent Change
Positions					
01 Regular	528.05	522.05	522.05	0.00	0%
02 Contractual	27.25	15.88	15.99	0.11	0.7%
Total Positions	**555.30**	**537.93**	**538.04**	**0.11**	**0%**
Objects					
01 Salaries and Wages	$ 32,920,540	$ 34,430,777	$ 35,953,782	$ 1,523,005	4.4%
02 Technical and Spec. Fees	1,574,351	962,843	1,008,977	46,134	4.8%
03 Communication	91,159	86,494	87,856	1,362	1.6%
04 Travel	17,696	2,265	9,958	7,693	339.6%
06 Fuel and Utilities	1,371,643	1,309,977	1,285,986	-23,991	-1.8%
07 Motor Vehicles	66,527	41,737	98,816	57,079	136.8%
08 Contractual Services	3,603,354	3,426,436	3,586,938	160,502	4.7%
09 Supplies and Materials	5,732,193	6,177,845	6,062,455	-115,390	-1.9%
10 Equipment – Replacement	149,167	30,000	30,390	390	1.3%
11 Equipment – Additional	44,080	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	1,224	5,000	25,000	20,000	400.0%
13 Fixed Charges	89,560	82,030	119,741	37,711	46.0%
Total Objects	**$ 45,661,494**	**$ 46,555,404**	**$ 48,269,899**	**$ 1,714,495**	**3.7%**
Funds					
01 General Fund	$ 40,747,219	$ 41,587,246	$ 43,045,823	$ 1,458,577	3.5%
03 Special Fund	4,217,085	4,301,641	4,425,125	123,484	2.9%
09 Reimbursable Fund	697,190	666,517	798,951	132,434	19.9%
Total Funds	**$ 45,661,494**	**$ 46,555,404**	**$ 48,269,899**	**$ 1,714,495**	**3.7%**

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
DHMH – Chronic Disease Services

Program/Unit	FY 12 Actual	FY 13 Wrk Approp	FY 14 Allowance	Change	FY 13 - FY 14 % Change
03 Western Maryland Center	$ 23,897,710	$ 24,552,737	$ 25,298,699	$ 745,962	3.0%
04 Deer's Head Center	21,763,784	22,002,667	22,971,200	968,533	4.4%
Total Expenditures	**$ 45,661,494**	**$ 46,555,404**	**$ 48,269,899**	**$ 1,714,495**	**3.7%**
General Fund	$ 40,747,219	$ 41,587,246	$ 43,045,823	$ 1,458,577	3.5%
Special Fund	4,217,085	4,301,641	4,425,125	123,484	2.9%
Total Appropriations	**$ 44,964,304**	**$ 45,888,887**	**$ 47,470,948**	**$ 1,582,061**	**3.4%**
Reimbursable Fund	$ 697,190	$ 666,517	$ 798,951	$ 132,434	19.9%
Total Funds	**$ 45,661,494**	**$ 46,555,404**	**$ 48,269,899**	**$ 1,714,495**	**3.7%**

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.